

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
INDEPENDENCE, IOWA

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2005

TABLE OF CONTENTS

| | Page |
|---|--------------|
| OFFICIALS | 4 |
| INDEPENDENT AUDITOR’S REPORT | 5-6 |
| MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) | 7-14 |
| BASIC FINANCIAL STATEMENTS | |
| Exhibit | |
| District-Wide Financial Statements: | |
| A Statement of Net Assets | 16-17 |
| B Statement of Activities | 18-21 |
| Governmental Fund Financial Statements: | |
| C Balance Sheet | 22-23 |
| D Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets | 24 |
| E Statement of Revenues, Expenditures and Changes in Fund Balances | 25-26 |
| F Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities | 27 |
| Proprietary Fund Financial Statements: | |
| G Statement of Net Assets | 28 |
| H Statement of Revenues, Expenses, and Changes in Net Assets | 29 |
| I Statement of Cash Flows | 30-31 |
| Fiduciary Fund Financial Statements: | |
| J Statement of Fiduciary Net Assets | 32 |
| K Statement of Changes in Fiduciary Net Assets | 33 |
| Notes to Financial Statements | 34-44 |
| REQUIRED SUPPLEMENTARY INFORMATION: | |
| Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Fund | 46 |
| Budgetary Comparison Schedule - Budget to GAAP Reconciliation | 47 |
| Notes to Required Supplementary Information – Budgetary Reporting | 48 |
| OTHER SUPPLEMENTARY INFORMATION: | |
| Schedule | |
| Nonmajor Governmental Funds: | |
| 1 Combining Balance Sheet | 50-51 |
| 2 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances | 52-53 |
| 3 Schedule of Changes in Special Revenue Fund, Student Activity Accounts | 54-56 |
| 4 Schedule of Changes in Fiduciary Assets and Liabilities – Agency Fund | 57 |
| 5 Schedule of Revenues by Source and Expenditures by Function – All Governmental Funds | 58 |
| 6 Schedule of Expenditures of Federal Awards | 59-60 |
| INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS | 61-62 |

TABLE OF CONTENTS
(continued)

| | Page |
|---|-------|
| INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 | 63-64 |
| SCHEDULE OF FINDINGS AND QUESTIONED COSTS | 65-69 |

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

OFFICIALS

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|----------------------------------|------------------------------|---------------------|
| <u>Board of Education</u> | | |
| (Before September 2004 Election) | | |
| Kevin Greenley | President | 2005 |
| Robert Reiff | Vice President | 2004 |
| Martin Brown | Board Member | 2004 |
| Dawnye Sturtz | Board Member | 2005 |
| Shelly Whited | Board Member | 2006 |
| <u>Board of Education</u> | | |
| (After September 2004 Election) | | |
| Robert Reiff | President | 2007 |
| Dawnye Sturtz | Vice President | 2005 |
| Martin Brown | Board Member | 2007 |
| Shelly Whited | Board Member | 2006 |
| Kevin Greenley | Board Member | 2005 |
| <u>School Officials</u> | | |
| Devin Embray | Superintendent | 2005 |
| Brian Bartz | District Secretary/Treasurer | 2005 |
| Swisher & Cohrt | Attorney | Indefinite |

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Independence Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Independence Community School District, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Independence Community School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 19, 2005 on our consideration of Independence Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 7 through 14 and 46 through 48 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Independence Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa
August 19, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Independence Community School District's annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year ending on June 30, 2005. This analysis will focus on the District's financial performance as a whole for the fiscal year 2005.

Please read this analysis in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

- ◆ General Fund revenue increased from \$11,443,945 in fiscal 2004 to \$11,544,528 in fiscal 2005 while General Fund expenditures increased from \$11,636,128 in fiscal 2004 to \$11,692,164 in fiscal 2005. This resulted in a decrease in the District's General Fund balance from \$1,028,461 in fiscal 2004 to \$881,283 in fiscal 2005, a decrease of 14% from the prior year.
- ◆ The decrease in the General Fund balance was due to increased costs in transportation and instructional support and less federal income.

◆ Overview of Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- ◆ The first two statements are District-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- ◆ The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- ◆ The statements for governmental funds explain how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- ◆ The statements for proprietary funds offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- ◆ The statements for fiduciary funds provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

District Wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two District-wide statements report the District's net assets and how they have changed. Net assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position.

- ◆ Over time, increases or decreases in the District's net assets are an indicator of whether the District's financial position is improving or deteriorating, respectively.
- ◆ To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base, the condition of school buildings and facilities and student enrollment trends.

In the District-wide financial statements, the District's activities are divided into two categories:

- ◆ **Governmental funds:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finances most of these activities.
- ◆ **Business-type funds:** The District charges fees to help cover the cost of certain services it provides. The District school nutrition program would be included here.

Fund Financial Statements

The fund financial statements, included with this report, provide more detailed information about the District's funds, focusing on its most significant or major funds. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Funds do not focus on the District as a whole.

- ◆ Some funds are required by state law and by bond covenants.
- ◆ The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

Independence Community School District has three types of funds:

- ◆ **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.
- ◆ The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund, and the Capital Projects Fund.
- ◆ **Proprietary funds:** Services for which the District charges a fee are generally reported in the proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.

- ◆ The District's enterprise fund, one type of proprietary fund, is the same as its business-type activities but provide more detail and additional information, such as cash flow. The District currently has one enterprise fund, the school nutrition program.
- ◆ **Fiduciary funds:** The District is trustee, or fiduciary, for assets that belong to others. These funds include Private -purpose Trust and Agency funds.
 - ◆ **Private-Purpose Trust Fund:** The District accounts for outside donations for specific purposes in this fund.
 - ◆ **Agency Fund:** These funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from District-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net assets: Figure A-1 provides a summary of the District's net assets for the year ended June 30, 2005 as compared to June 30, 2004. The District's combined net assets were slightly higher on June 30, 2005 than they were the year before, increasing to 6,618,427. (see figure A1)

Condensed Statement of Net Assets-figure A1

| | Governmental Activities | | Business-type Activities | | Total School District | | Total Percentage Change 2004-05 |
|--|----------------------------|---------------------|-----------------------------|------------------|--------------------------|---------------------|--|
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | |
| Current and other assets | \$7,689,422 | \$8,730,702 | \$89,458 | \$75,919 | \$7,778,880 | \$8,806,621 | 13.2% |
| Capital assets | \$4,406,087 | \$4,782,805 | \$61,919 | \$53,020 | \$4,468,006 | \$4,835,825 | 8.2% |
| Total Assets | \$12,095,509 | \$13,513,507 | \$151,377 | \$128,939 | \$12,246,886 | \$13,642,446 | 11.4% |
| Long-term debt outstanding | \$490,000 | \$390,000 | | | \$490,000 | \$390,000 | -20.4% |
| Other liabilities | \$5,557,157 | \$6,599,925 | \$33,555 | \$34,094 | \$5,590,712 | \$6,634,019 | 18.7% |
| Total liabilities | \$6,047,157 | \$6,989,925 | \$33,555 | \$34,094 | \$6,080,712 | \$7,024,019 | 15.5% |
| Net Assets | | | | | | | |
| Invested in capital assets, net of related debt | \$3,916,087 | \$4,392,805 | \$61,919 | \$53,020 | \$3,978,006 | \$4,445,825 | 11.8% |
| Restricted | \$713,139 | \$777,343 | | | \$713,139 | \$777,343 | 9.0% |
| Unrestricted | \$1,419,126 | \$1,353,434 | \$55,903 | \$41,825 | \$1,475,029 | \$1,395,259 | -5.4% |
| TOTAL NET ASSETS | \$6,048,352 | \$6,523,582 | \$117,822 | \$94,845 | \$6,166,174 | \$6,618,427 | 7.3% |

Changes in net assets: Figure A-2 shows the changes in net assets for the year ending June 30, 2005 as compared to June 30, 2004.

Changes in Net Assets from Operating Results- figure A2

| | Governmental Activities | | Business-type Activities | | Total School District | | Total Percentage Change |
|--|----------------------------|----------------------|-----------------------------|--------------------|--------------------------|----------------------|-------------------------------|
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004-05% |
| Revenues | | | | | \$ - | \$ - | |
| Program Revenues | | | | | \$ - | \$ - | |
| Charges for services | \$ 1,108,557 | \$ 1,221,913 | \$ 283,943 | \$ 319,130 | \$ 1,392,500 | \$ 1,541,043 | 10.7% |
| Operating Grants & Contributions | \$ 1,772,411 | \$ 1,689,273 | \$ 243,000 | \$ 259,149 | \$ 2,015,411 | \$ 1,948,422 | -3.3% |
| Capital Grants & Contributions | \$ 87,758 | | | | \$ 87,758 | | 0% |
| General Revenues | | | | | \$ - | \$ - | |
| Property taxes and income surtaxes | \$ 3,972,223 | \$ 4,012,261 | | | \$ 3,972,223 | \$ 4,012,261 | 1.0% |
| Unrestricted state grants | \$ 5,534,398 | \$ 5,913,000 | | | \$ 5,534,398 | \$ 5,913,000 | 6.8% |
| Other | \$ 512,424 | \$ 723,506 | \$ 464 | \$ 302 | \$ 512,888 | \$ 723,808 | 41.1% |
| Total Revenues | \$ 12,987,771 | \$ 13,559,953 | \$ 527,407 | \$ 578,581 | \$ 13,515,178 | \$ 14,138,534 | 4.6% |
| Expenses | | | | | | | |
| Instruction | \$ 8,920,057 | \$ 9,162,498 | | | \$ 8,920,057 | \$ 9,162,498 | 2.7% |
| Support Services | \$ 3,072,456 | \$ 3,164,614 | | | \$ 3,072,456 | \$ 3,164,614 | 3.0% |
| Non-instructional Programs | \$ 4,220 | | \$ 565,613 | \$ 601,558 | \$ 569,833 | \$ 601,558 | 5.6% |
| | | | | | \$ - | \$ - | |
| | | | | | \$ - | \$ - | |
| Other | \$ 848,055 | \$ 757,611 | | | \$ 848,055 | \$ 757,611 | -10.7% |
| Total Expenses | \$ 12,844,788 | \$ 13,084,723 | \$ 565,613 | \$ 601,558 | \$ 13,410,401 | \$ 13,686,281 | 2.1% |
| Excess (deficiency) before Special item | \$ 142,983 | \$ 475,230 | \$ (38,206) | \$ (22,977) | \$ 104,777 | \$ 452,253 | 431.6% |
| Special item description | \$ | | | | \$ | \$ - | |
| Increase (decrease) in net assets | \$ 142,983 | \$ 475,230 | \$ (38,206) | \$ (22,977) | \$ 104,777 | \$ 452,253 | 431.6% |

Property tax, income surtax, and unrestricted state grants account for 70% of the District's total revenue. The District's expenses primarily relate to instruction and support services, which account for 90% of the total school district expenses.

Governmental Activities

Revenues for governmental activities were \$13,559,953 and expenses were \$ 13,084,723. In a very difficult budget year, the District did a remarkable job of controlling expenditures to provide additional funds for upcoming years.

The following table presents the total and net cost of the District's major governmental activities; instruction, support services, non-instructional programs and other expenses.

Figure A-3 Total Net Cost of Governmental Activities

Net Cost of Governmental Activities- figure A3

| | Total Cost of Services | | Percentage Change | Net Cost of Services | | Percentage Change |
|----------------------------|---------------------------|----------------------|----------------------|-------------------------|----------------------|----------------------|
| | 2004 | 2005 | 2004-05% | 2004 | 2005 | 2004-05% |
| Instruction | \$ 8,920,057 | \$ 9,162,498 | 2.7% | \$ 6,822,281 | \$ 6,812,060 | -.1% |
| Support Services | \$ 3,072,456 | \$ 3,164,614 | 3.0% | \$ 2,743,802 | \$ 3,047,735 | 11.1% |
| Non-instructional programs | \$ 4,220 | \$ | -100% | \$ (27) | \$ | 100% |
| Other | \$ 848,055 | \$ 757,611 | -10.7% | \$ 310,006 | \$ 313,742 | 1.2% |
| TOTAL | \$ 12,844,788 | \$ 13,084,723 | 1.9% | \$ 9,876,062 | \$ 10,173,537 | 3% |

- ◆ The cost financed by users of District's programs was \$ 1,221,913.
- ◆ Federal and state government subsidized certain programs with operating grants and contributions totaling \$ 1,689,273.
- ◆ The net cost of governmental activities was financed with \$ 4,012,261 in property tax and income surtax, \$ 5,913,000 in state foundation aid and \$723,506 in other income.

Business -Type Activities

Revenues of the District's business-type activities were \$ 578,581 and expenses were \$601,558. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income.

Financial Analysis of the District's Funds

As previously noted, the Independence Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The strong financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$ 1,692,617, an increase from last year's ending fund balance of \$ 1,675,781.

Governmental Fund Highlights

- ◆ The District's General Fund financial position is the product of many factors, however the main reason for the decrease in fund balance for fiscal year 2005 was a decrease in federal Medicaid claim reimbursements.
- ◆ The General Fund balance decreased from \$1,028,461 to \$881,283 for the 2004-05 fiscal year.
- ◆ The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$144,277 to \$127,527 for the 2004-2005 fiscal year.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$117,822 at June 30, 2004 to \$94,845 at June 30, 2005.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following the required public notice and hearing for all funds, except its private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds; budgets for the General Fund and Major Special Revenue Funds are not presented on the budgetary comparison pages.

Legal Budgetary Highlights

The District's total actual receipts were \$308,849 more than the total budgeted receipts, a variance of 2.3 percent.

Total expenditures were \$94 more than the total budgeted expenditures, a variance of less than one thousandth of a percent.

It is the District's practice to budget expenditures at an amount that exceeds projected expenditures for the coming fiscal year, but is less than the maximum allowed by law. The District then manages or controls General Fund spending through a line-item budget at the building level.

The instruction functional budget was exceeded this year due to the large band trip in the Activity Fund.

The other expenditures functional budget was exceeded this year due to an unexpected land purchase which was made at year end when there was not enough time to amend the budget.

Capital Assets and Debt Administration

Capital Assets

On June 30, 2005, the District had invested approximately \$4.8 million, net of accumulated depreciation in a broad range of capital assets, including land, buildings, athletic facilities, transportation equipment, computers, and audio-visual equipment. (See Figure A-4) More detailed information about capital assets is available in the financial statements. Depreciation expense for the year was \$ 240,354.

Excluding depreciation, the District has approximately \$10.15 million in capital assets. Governmental Funds account for approximately \$9.96 million with the remainder of \$190,485 in the School Nutrition Fund

Figure A-4
Capital Assets, Net of Depreciation

Capital Assets (net of depreciation)- figure A4

| | Governmental Activities | | Business-type Activities | | Total School District | | Total Percentage Change |
|-----------------------|------------------------------------|---------------------|-------------------------------------|------------------|----------------------------------|---------------------|--|
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004-05 |
| Land | \$ 595,980 | \$ 1,100,190 | | | \$ 595,980 | \$ 1,100,190 | 184.6% |
| Improvements | \$ 391,733 | \$ 373,171 | | | \$ 391,733 | \$ 373,171 | -4.7% |
| Buildings | \$ 3,167,300 | \$ 3,075,215 | | | \$ 3,167,300 | \$ 3,075,215 | -2.9% |
| Construction | \$ | \$ | | | \$ | \$ | % |
| Equipment & Furniture | \$ 251,074 | \$ 234,229 | \$ 61,919 | \$ 53,020 | \$ 312,993 | \$ 287,249 | -8.2% |
| TOTAL | \$ 4,406,087 | \$ 4,782,805 | \$ 61,919 | \$ 53,020 | \$ 4,468,006 | \$ 4,835,825 | 8.2% |

Long-Term Debt

On June 30, 2005, the District had \$390,000 in general obligation debt outstanding and \$60,000 in early retirement debt outstanding. This \$450,000 total represents a decrease of 8.2% from the prior year. More detailed information about District's long-term liabilities is available in Note 5 to the financial statements.

Figure A-5
Total School District

| | 2004 | 2005 | Change |
|--------------------------|----------------|----------------|-----------------|
| General obligation bonds | 490,000 | 390,000 | -100,000 |
| Early retirement bonds | 0 | 60,000 | 60,000 |

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- ◆ State aid payments remain a concern. The governor issued an across the board budget cut of 2.3% in Sept. 2003. As long as the state financial picture remains bleak, future state cuts cannot be ruled out.
- ◆ The District has had declining enrollment the last nine years. Unless there is a movement of families into the district the trend of declining enrollment is expected to continue the next five years.
- ◆ The District will negotiate a new labor contract in 2006 with its employees. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and reserve fund balance.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Chris Kimball, Director of Finance, Independence Community School District, 1207 1st Street West, Independence, Iowa 50644.

Basic Financial Statements

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

| | Governmental Activities | Business-type Activities | Total |
|--|----------------------------|-----------------------------|-------------------|
| Assets | | | |
| Cash and pooled investments | \$ 2,641,647 | \$ 51,324 | \$ 2,692,971 |
| Receivables: | | | |
| Property tax: | | | |
| Current year | 47,652 | - | 47,652 |
| Succeeding year | 3,303,691 | - | 3,303,691 |
| Income surtax | 499,054 | - | 499,054 |
| Accrued interest | 5,392 | - | 5,392 |
| Accounts | 24,676 | 61 | 24,737 |
| Due from other governments | 484,619 | - | 484,619 |
| Inventories | - | 24,534 | 24,534 |
| Restricted ISCAP assets (note 3): | | | |
| Investments | 1,723,602 | - | 1,723,602 |
| Accrued interest receivable | 369 | - | 369 |
| Capital assets, net of accumulated depreciation (note 4) | 4,782,805 | 53,020 | 4,835,825 |
| Total assets | 13,513,507 | 128,939 | 13,642,446 |
| Liabilities | | | |
| Accounts payable | 294,490 | 105 | 294,595 |
| Salaries and benefits payable | 1,201,475 | 33,989 | 1,235,464 |
| Accrued interest payable | 894 | - | 894 |
| ISCAP warrants payable (note 3) | 1,716,000 | - | 1,716,000 |
| ISCAP accrued interest payable (note 3) | 329 | - | 329 |
| ISCAP unamortized premium | 23,046 | - | 23,046 |
| Deferred revenue: | | | |
| Succeeding year property tax | 3,303,691 | - | 3,303,691 |
| Long-term liabilities (note 5): | | | |
| Portion due within one year: | | | |
| Early retirement | 60,000 | - | 60,000 |
| Bonds payable | 100,000 | - | 100,000 |
| Portion due after one year: | | | |
| Bonds payable | 290,000 | - | 290,000 |
| Total liabilities | 6,989,925 | 34,094 | 7,024,019 |

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

| | Governmental Activities | Business-type Activities | Total |
|---|----------------------------|-----------------------------|--------------|
| Net Assets | | | |
| Invested in capital assets, net of related debt | \$ 4,392,805 | \$ 53,020 | \$ 4,445,825 |
| Restricted for: | | | |
| Management levy | 10,619 | - | 10,619 |
| Physical plant and equipment levy | 127,527 | - | 127,527 |
| Other special revenue purposes | 108,819 | - | 108,819 |
| Debt service | 21,355 | - | 21,355 |
| Capital projects | 482,120 | - | 482,120 |
| State grants | 26,903 | - | 26,903 |
| Unrestricted | 1,353,434 | 41,825 | 1,395,259 |
| Total net assets | \$ 6,523,582 | \$ 94,845 | \$ 6,618,427 |

See notes to financial statements.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

| Functions/Programs | Expenses | Program Revenues | | |
|---|------------------|----------------------|---|---|
| | | Charges for Services | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Governmental Activities: | | | | |
| Instruction: | | | | |
| Regular instruction | \$ 5,284,079 | \$ 280,622 | \$ 445,654 | \$ - |
| Special instruction | 2,384,983 | 304,734 | 414,510 | - |
| Other instruction | 1,493,436 | 614,237 | 290,681 | - |
| | <u>9,162,498</u> | <u>1,199,593</u> | <u>1,150,845</u> | <u>-</u> |
| Support services: | | | | |
| Student services | 339,021 | 651 | 78,109 | - |
| Instructional staff services | 408,158 | - | - | - |
| Administration services | 1,009,887 | - | - | - |
| Operation and maintenance of plant services | 998,832 | 2,825 | - | - |
| Transportation services | 408,716 | 18,844 | 16,450 | - |
| | <u>3,164,614</u> | <u>22,320</u> | <u>94,559</u> | <u>-</u> |
| Other expenditures: | | | | |
| Facilities acquisition | 139,268 | - | - | - |
| Long-term debt interest and fiscal charges | 12,558 | - | - | - |
| AEA flowthrough | 443,869 | - | 443,869 | - |
| Depreciation (unallocated) * | 161,916 | - | - | - |
| | <u>757,611</u> | <u>-</u> | <u>443,869</u> | <u>-</u> |
| Total governmental activities | 13,084,723 | 1,221,913 | 1,689,273 | - |
| Business-Type Activities: | | | | |
| Non-instructional programs: | | | | |
| Food service operations | <u>601,558</u> | <u>319,130</u> | <u>259,149</u> | <u>-</u> |
| Total | \$ 13,686,281 | \$ 1,541,043 | \$ 1,948,422 | \$ - |

| Net (Expense) Revenue and Changes in Net Assets | | |
|--|-----------------------------|----------------|
| Governmental Activities | Business-Type Activities | Total |
| \$ (4,557,803) | \$ - | \$ (4,557,803) |
| (1,665,739) | - | (1,665,739) |
| (588,518) | - | (588,518) |
| (6,812,060) | - | (6,812,060) |
| (260,261) | - | (260,261) |
| (408,158) | - | (408,158) |
| (1,009,887) | - | (1,009,887) |
| (996,007) | - | (996,007) |
| (373,422) | - | (373,422) |
| (3,047,735) | - | (3,047,735) |
| (139,268) | - | (139,268) |
| (12,558) | - | (12,558) |
| - | - | - |
| (161,916) | - | (161,916) |
| (313,742) | - | (313,742) |
| (10,173,537) | - | (10,173,537) |
| - | (23,279) | (23,279) |
| (10,173,537) | (23,279) | (10,196,816) |

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Functions/Programs

General Revenues:

Property tax levied for:

General purposes

Debt service

Capital outlay

Income surtax

Local option sales and services tax

Unrestricted state grants

Unrestricted investment earnings

Other

Total general revenues

Change in net assets

Net assets beginning of year

Net assets end of year

* = This amount excludes the depreciation that is included
in the direct expense of the various programs.

See notes to financial statements.

| Net (Expense) Revenue and Changes in Net Assets | | |
|--|-----------------------------|---------------------|
| Governmental Activities | Business-Type Activities | Total |
| \$ 3,177,917 | \$ - | \$ 3,177,917 |
| 88,000 | - | 88,000 |
| 204,612 | - | 204,612 |
| 541,732 | - | 541,732 |
| 697,675 | - | 697,675 |
| 5,913,000 | - | 5,913,000 |
| 18,398 | 302 | 18,700 |
| 7,433 | - | 7,433 |
| 10,648,767 | 302 | 10,649,069 |
| 475,230 | (22,977) | 452,253 |
| 6,048,352 | 117,822 | 6,166,174 |
| <u>\$ 6,523,582</u> | <u>\$ 94,845</u> | <u>\$ 6,618,427</u> |

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

| | <u>General</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|-----------------------------------|---------------------|--|---|
| Assets | | | |
| Cash and pooled investments | \$ 1,867,027 | \$ 774,620 | \$ 2,641,647 |
| Receivables: | | | |
| Property tax: | | | |
| Current year | 40,142 | 7,510 | 47,652 |
| Succeeding year | 2,771,648 | 532,043 | 3,303,691 |
| Income surtax | 499,054 | - | 499,054 |
| Accrued interest | 3,004 | 2,388 | 5,392 |
| Accounts | 6,394 | 18,282 | 24,676 |
| Due from other governments | 381,510 | 103,109 | 484,619 |
| Restricted ISCAP assets (note 3): | | | |
| Investments | 1,723,602 | - | 1,723,602 |
| Accrued interest receivable | 369 | - | 369 |
| | <u>7,292,750</u> | <u>1,437,952</u> | <u>8,730,702</u> |
| Total assets | \$ <u>7,292,750</u> | \$ <u>1,437,952</u> | \$ <u>8,730,702</u> |

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

| | General | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---------------------|-----------------------------------|--------------------------------|
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ 199,915 | \$ 94,575 | \$ 294,490 |
| Salaries and benefits payable | 1,201,475 | - | 1,201,475 |
| ISCAP warrants payable (note 3) | 1,716,000 | - | 1,716,000 |
| ISCAP accrued interest payable (note 3) | 329 | - | 329 |
| ISCAP unamortized premium | 23,046 | - | 23,046 |
| Deferred revenue: | | | |
| Succeeding year property tax | 2,771,648 | 532,043 | 3,303,691 |
| Other | 499,054 | - | 499,054 |
| Total liabilities | <u>6,411,467</u> | <u>626,618</u> | <u>7,038,085</u> |
| Fund balance: | | | |
| Reserved for: | | | |
| State grants | 26,903 | - | 26,903 |
| Debt service | - | 22,249 | 22,249 |
| Unreserved: | | | |
| Reported in nonmajor Special Revenue Funds | - | 306,965 | 306,965 |
| Undesignated | 854,380 | 482,120 | 1,336,500 |
| Total fund balances | <u>881,283</u> | <u>811,334</u> | <u>1,692,617</u> |
| Total liabilities and fund balances | <u>\$ 7,292,750</u> | <u>\$ 1,437,952</u> | <u>\$ 8,730,702</u> |

See notes to financial statements.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 June 30, 2005

| | |
|---|---------------------|
| Total fund balances of governmental funds | \$ 1,692,617 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. | 4,782,805 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. | 499,054 |
| Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds. | (894) |
| Long-term liabilities, including bonds payable and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. | <u>(450,000)</u> |
| Net assets of governmental activities | <u>\$ 6,523,582</u> |
| See notes to financial statements. | |

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

| | General | Nonmajor Governmental Funds | Total |
|--|--------------|-----------------------------------|--------------|
| Revenues: | | | |
| Local sources: | | | |
| Local tax | \$ 3,427,928 | \$ 1,237,179 | \$ 4,665,107 |
| Tuition | 606,646 | - | 606,646 |
| Other | 63,806 | 735,823 | 799,629 |
| State sources | 6,760,785 | 518 | 6,761,303 |
| Federal sources | 685,363 | - | 685,363 |
| Total revenues | 11,544,528 | 1,973,520 | 13,518,048 |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular instruction | 5,219,366 | 84,795 | 5,304,161 |
| Special instruction | 2,384,983 | - | 2,384,983 |
| Other instruction | 661,020 | 749,035 | 1,410,055 |
| | 8,265,369 | 833,830 | 9,099,199 |
| Support services: | | | |
| Student services | 339,021 | - | 339,021 |
| Instructional staff services | 378,270 | 29,888 | 408,158 |
| Administration services | 1,009,244 | 643 | 1,009,887 |
| Operation and maintenance of plant services | 906,375 | 81,140 | 987,515 |
| Transportation services | 350,016 | 46,277 | 396,293 |
| | 2,982,926 | 157,948 | 3,140,874 |
| Other expenditures: | | | |
| Facilities acquisition | - | 704,941 | 704,941 |
| Long term debt: | | | |
| Principal | - | 100,000 | 100,000 |
| Interest and fiscal charges | - | 12,787 | 12,787 |
| AEA flowthrough | 443,869 | - | 443,869 |
| | 443,869 | 817,728 | 1,261,597 |
| Total expenditures | 11,692,164 | 1,809,506 | 13,501,670 |
| Excess (deficiency) of revenues over (under) expenditures | (147,636) | 164,014 | 16,378 |

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

| | <u>General</u> | <u>Nonmajor Governmental Funds</u> | <u>Total</u> |
|---|-------------------|--|---------------------|
| Other financing sources: | | | |
| Compensation for loss of capital assets | \$ 458 | \$ - | \$ 458 |
| Net change in fund balances | (147,178) | 164,014 | 16,836 |
| Fund balances beginning of year | <u>1,028,461</u> | <u>647,320</u> | <u>1,675,781</u> |
| Fund balances end of year | <u>\$ 881,283</u> | <u>\$ 811,334</u> | <u>\$ 1,692,617</u> |

See notes to financial statements.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

Net change in fund balances - total governmental funds \$ 16,836

Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the statement of net assets and are allocated over their estimated useful lives as depreciation expense in the statement of activities. The amounts of capital outlays and depreciation expense in the year are as follows:

| | | |
|----------------------|------------------|---------|
| Capital outlays | \$ 608,173 | |
| Depreciation expense | <u>(231,455)</u> | 376,718 |

Certain income surtax not received until several months after the District's fiscal year ends is not considered available revenue in the governmental funds and is deferred. It is, however, recorded as revenue in the statement of activities. 41,447

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets. 100,000

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 229

Some expenses reported in the statement of activities, including early retirement, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (60,000)

Change in net assets of governmental activities \$ 475,230

See notes to financial statements.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

June 30, 2005

| | Enterprise - School Nutrition | Internal Service - Flexible Benefits |
|---|-------------------------------------|---|
| Assets | | |
| Cash and cash equivalents | \$ 51,324 | \$ 7,376 |
| Accounts receivable | 61 | - |
| Inventories | 24,534 | - |
| Capital assets, net of accumulated depreciation | 53,020 | - |
| Total assets | <u>128,939</u> | <u>7,376</u> |
| Liabilities | | |
| Accounts payable | 105 | - |
| Salaries and benefits payable | 33,989 | - |
| Total liabilities | <u>34,094</u> | <u>-</u> |
| Net Assets | | |
| Invested in capital assets | 53,020 | - |
| Unrestricted | <u>41,825</u> | <u>7,376</u> |
| Total net assets | <u>\$ 94,845</u> | <u>\$ 7,376</u> |

See notes to financial statements.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2005

| | Enterprise - School Nutrition | Internal Service - Flexible Benefits |
|-------------------------------|-------------------------------------|---|
| Operating revenues: | | |
| Local sources: | | |
| Charges for services | \$ 319,130 | \$ 80,119 |
| Operating expenses: | | |
| Non-instructional programs: | | |
| Non-instructional operations: | | |
| Salaries | 204,517 | - |
| Benefits | 71,977 | - |
| Purchased services | 2,056 | - |
| Supplies | 313,668 | - |
| Depreciation | 8,899 | - |
| Other | 441 | 81,174 |
| | <u>601,558</u> | <u>81,174</u> |
| Operating loss | <u>(282,428)</u> | <u>(1,055)</u> |
| Non-operating revenues: | | |
| Interest on investments | 302 | - |
| State sources | 7,655 | - |
| Federal sources | 251,494 | - |
| Total non-operating revenues | <u>259,451</u> | <u>-</u> |
| Change in net assets | (22,977) | (1,055) |
| Net assets beginning of year | <u>117,822</u> | <u>8,431</u> |
| Net assets end of year | <u>\$ 94,845</u> | <u>\$ 7,376</u> |

See notes to financial statements.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2005

| | Enterprise - School Nutrition | Internal Service - Flexible Benefits |
|---|-------------------------------------|---|
| Cash flows from operating activities: | | |
| Cash received from sale of lunches and breakfasts | \$ 314,000 | \$ - |
| Cash received from miscellaneous operating activities | 5,712 | 80,119 |
| Cash payments to employees for services | (275,680) | (81,174) |
| Cash payments to suppliers for goods or services | (269,176) | - |
| Net cash used in operating activities | <u>(225,144)</u> | <u>(1,055)</u> |
| Cash flows from non-capital financing activities: | | |
| State grants received | 7,655 | - |
| Federal grants received | 212,278 | - |
| Net cash provided by non-capital financing activities | <u>219,933</u> | <u>-</u> |
| Cash flows from investing activities: | | |
| Interest on investments | <u>302</u> | <u>-</u> |
| Net decrease in cash and cash equivalents | (4,909) | (1,055) |
| Cash and cash equivalents beginning of year | <u>56,233</u> | <u>8,431</u> |
| Cash and cash equivalents end of year | <u>\$ 51,324</u> | <u>\$ 7,376</u> |

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2005

| | Enterprise - School Nutrition | Internal Service - Flexible Benefits |
|---|-------------------------------------|---|
| Reconciliation of operating loss to net cash used in operating activities: | | |
| Operating loss | \$ (282,428) | \$ (1,055) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation | 8,899 | - |
| Commodities used | 39,216 | - |
| Decrease in accounts receivable | 582 | - |
| Decrease in inventories | 8,048 | - |
| (Decrease) in accounts payable | (275) | - |
| Increase in salaries and benefits payable | 814 | - |
| Net cash used in operating activities | \$ <u>(225,144)</u> | \$ <u>(1,055)</u> |

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$39,216 of federal commodities.

See notes to financial statements.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2005

| | <u>Agency</u> |
|-----------------------------|-----------------|
| Assets: | |
| Cash and pooled investments | \$ 2,851 |
| Accounts receivable | <u>44</u> |
| Total assets | <u>\$ 2,895</u> |
| Liabilities: | |
| Other payables | <u>\$ 2,895</u> |

See notes to financial statements.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2005

| | Private Purpose Trust |
|------------------------------------|--------------------------|
| | <u>Scholarship</u> |
| Additions: | |
| None | \$ <u>-</u> |
| Deductions: | |
| Support services: | |
| Transfers to fiscal agent | <u>2,400</u> |
| Change in net assets | (2,400) |
| Net assets beginning of year | <u>2,400</u> |
| Net assets end of year | \$ <u><u>-</u></u> |
| See notes to financial statements. | |

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

Independence Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Independence, Iowa, and the agricultural territory in Buchanan County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Independence Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. Independence Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Buchanan County Assessor's Conference Board.

B. Basis of Presentation

District-wide Financial Statements – The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The statement of net assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental fund:

The General Fund is the main operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The District's proprietary enterprise fund is the School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District's proprietary internal service fund is the Flexible Benefits Fund. This fund is used to account for the flexible health and child care benefits program offered by the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements with restrictions of income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

All proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the statement of net assets and the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in Governmental Funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Current year property tax receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget to the County Auditor by April 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2004.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Capital Assets – Capital assets, which include property, furniture, and equipment are reported in the applicable governmental or business-type activities columns in the District-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

| Asset Class | Amount |
|-----------------------------------|----------|
| Land | \$ 5,000 |
| Buildings | 5,000 |
| Improvements other than buildings | 5,000 |
| Furniture and equipment: | |
| School Nutrition Fund Equipment | 5,000 |
| Other furniture and equipment | 5,000 |

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

| Asset Class | Estimated Useful Lives |
|-----------------------------------|------------------------|
| Buildings | 50 years |
| Improvements other than buildings | 20 years |
| Furniture and equipment | 5-20 years |

Salaries and Benefits Payable – Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, the succeeding year property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation and sick leave for subsequent use. The District's policy is not to reimburse employees for sick leave or vacation. Vacation can only be used by the employee in the year it is earned. The District has no compensated absences liability at June 30, 2005.

Long-term Liabilities – In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Invested in capital assets, net of related debt – In the District-wide statement of net assets, the net asset balance invested in capital assets, net of related debt is equal to the capital assets balances, including restricted capital assets, less accumulated depreciation and the outstanding balances of any bonds, notes, or other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – In the District-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements in the instruction and other expenditures functions exceeded the amounts budgeted.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 3. Iowa Schools Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2005 is as follows:

| <u>Series</u> | <u>Warrant Date</u> | <u>Final Warrant Maturity</u> | <u>Investments</u> | <u>Accrued Interest Receivable</u> | <u>Warrants Payable</u> | <u>Accrued Interest Payable</u> |
|---------------|---------------------|-------------------------------|---------------------|------------------------------------|-------------------------|---------------------------------|
| 2005-06A | 6/30/2005 | 6/30/2006 | \$ <u>1,723,602</u> | \$ <u>369</u> | \$ <u>1,716,000</u> | \$ <u>329</u> |

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no ISCAP advance activity in the General Fund for the year ended June 30, 2005.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

| <u>Series</u> | <u>Interest Rates on Warrants</u> | <u>Interest Rates on Investments</u> |
|---------------|-----------------------------------|--------------------------------------|
| 2004-05A | 3.000% | 2.463% |
| 2005-06A | 3.500% | 3.903% |

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|---|---------------------------------|------------|-----------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 595,980 | \$ 504,210 | \$ - | \$ 1,100,190 |
| Capital assets being depreciated: | | | | |
| Buildings | 6,625,045 | 32,007 | - | 6,657,052 |
| Improvements other than buildings | 1,034,327 | 29,456 | - | 1,063,783 |
| Furniture and equipment | 1,097,460 | 42,500 | - | 1,139,960 |
| Total capital assets being depreciated | 8,756,832 | 103,963 | - | 8,860,795 |
| Less accumulated depreciation for: | | | | |
| Buildings | 3,457,745 | 124,092 | - | 3,581,837 |
| Improvements other than buildings | 642,594 | 48,018 | - | 690,612 |
| Furniture and equipment | 846,386 | 59,345 | - | 905,731 |
| Total accumulated depreciation | 4,946,725 | 231,455 | - | 5,178,180 |
| Total capital assets being depreciated, net | 3,810,107 | (127,492) | - | 3,682,615 |
| Governmental activities capital assets, net | \$ 4,406,087 | \$ 376,718 | \$ - | \$ 4,782,805 |

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 4. Capital Assets (continued)

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------------|-------------------|-------------|---------------------------|
| Business-type activities: | | | | |
| Furniture and equipment | \$ 190,485 | \$ - | \$ - | \$ 190,485 |
| Less accumulated depreciation | 128,566 | 8,899 | - | 137,465 |
| Business-type activities capital assets, net | <u>\$ 61,919</u> | <u>\$ (8,899)</u> | <u>\$ -</u> | <u>\$ 53,020</u> |

Depreciation expense was charged by the District to the following functions:

Governmental activities:

Instruction:

Regular

\$ 4,713

Other

12,796

Support services:

Operation and maintenance of plant services

11,317

Transportation

40,713

69,539

Unallocated depreciation

161,916

Total governmental activities depreciation expense

\$ 231,455

Business-type activities:

Food service operations

\$ 8,899

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 5. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

| | Early Retirement | General Obligation Bonds | Total |
|---------------------------|---------------------|--------------------------------|-------------------|
| Balance beginning of year | \$ - | \$ 490,000 | \$ 490,000 |
| Additions | 60,000 | - | 60,000 |
| Reductions | - | 100,000 | 100,000 |
| Balance end of year | <u>\$ 60,000</u> | <u>\$ 390,000</u> | <u>\$ 450,000</u> |
| Due within one year | <u>\$ 60,000</u> | <u>\$ 100,000</u> | <u>\$ 160,000</u> |

Early Retirement

The District offers a voluntary early retirement plan to its certified employees and support staff. Eligible employees must have completed fifteen years of continuous service to the District and eligible support staff employees must be between ages fifty-five and sixty. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible certified employee is equal to \$15,000. The early retirement incentive for each eligible support staff employee is equal to 40% of the employee's current salary, less any overtime or other additional pay, subject to a maximum of \$15,000. Early retirement benefits paid during the year ended June 30, 2005, totaled \$120,000. The long-term portion of early retirement is recorded as a long-term liability of the Governmental Activities in the District wide financial statements.

Bonds Payable

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

| Year Ending June 30, | Interest Rate | Principal | Interest | Total |
|-------------------------|------------------|-------------------|------------------|-------------------|
| 2006 | 2.75 % | \$ 100,000 | \$ 10,037 | \$ 110,037 |
| 2007 | 2.75 | 100,000 | 7,288 | 107,288 |
| 2008 | 2.75 | 105,000 | 4,537 | 109,537 |
| 2009 | 2.75 | 85,000 | 1,581 | 86,581 |
| | | <u>\$ 390,000</u> | <u>\$ 23,443</u> | <u>\$ 413,443</u> |

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 6. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$412,014, \$403,956, and \$389,043 respectively, equal to the required contributions for each year.

Note 7. Risk Management

Independence Community School District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2005 were \$55,700.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw.

Independence Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$443,869 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Required Supplementary Information

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds
and Proprietary Fund
Required Supplementary Information
Year Ended June 30, 2005

| | Governmental Funds - Actual | Proprietary Fund - Enterprise - Actual | Total Actual | Budgeted Amounts Original and Final | Final to Actual Variance |
|--|-----------------------------------|---|-----------------|---|--------------------------------|
| RECEIPTS: | | | | | |
| Local sources | \$ 5,976,565 | \$ 320,014 | \$ 6,296,579 | \$ 5,912,419 | \$ 384,160 |
| State sources | 6,743,425 | 7,655 | 6,751,080 | 6,791,831 | (40,751) |
| Federal sources | 483,946 | 251,494 | 735,440 | 770,000 | (34,560) |
| Total receipts | 13,203,936 | 579,163 | 13,783,099 | 13,474,250 | 308,849 |
| DISBURSEMENTS: | | | | | |
| Instruction | 9,194,832 | - | 9,194,832 | 9,060,000 | (134,832) |
| Support services | 3,128,193 | - | 3,128,193 | 3,683,700 | 555,507 |
| Non-instructional programs | - | 584,072 | 584,072 | 607,000 | 22,928 |
| Other expenditures | 1,211,357 | - | 1,211,357 | 767,660 | (443,697) |
| Total disbursements | 13,534,382 | 584,072 | 14,118,454 | 14,118,360 | (94) |
| Excess (deficiency) of receipts over (under) disbursements | (330,446) | (4,909) | (335,355) | (644,110) | 308,755 |
| Other financing sources, net | 458 | - | 458 | - | 458 |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements | (329,988) | (4,909) | (334,897) | (644,110) | 309,213 |
| Balance beginning of year | 2,971,635 | 56,233 | 3,027,868 | 2,421,011 | 606,857 |
| Balance end of year | \$ 2,641,647 | \$ 51,324 | \$ 2,692,971 | \$ 1,776,901 | \$ 916,070 |

See accompanying independent auditor's report.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule – Budget to GAAP Reconciliation Required Supplementary Information Year Ended June 30, 2005

| | Governmental Funds | | |
|-------------------------|---------------------|-----------------------------|------------------------------|
| | Cash Basis | Accrual Adjust- ments | Modified Accrual Basis |
| Revenues | \$ 13,203,936 | \$ 314,112 | \$ 13,518,048 |
| Expenditures | 13,534,382 | (32,712) | 13,501,670 |
| Net | (330,446) | 346,824 | 16,378 |
| Other financing sources | 458 | - | 458 |
| Beginning fund balances | 2,971,635 | (1,295,854) | 1,675,781 |
| Ending fund balances | <u>\$ 2,641,647</u> | <u>\$ (949,030)</u> | <u>\$ 1,692,617</u> |
| | Proprietary Fund | | |
| | Cash Basis | Accrual Adjust- ments | Accrual Basis |
| Revenues | \$ 579,163 | \$ (582) | \$ 578,581 |
| Expenses | 584,072 | 17,486 | 601,558 |
| Net | (4,909) | (18,068) | (22,977) |
| Beginning net assets | 56,233 | 61,589 | 117,822 |
| Ending net assets | <u>\$ 51,324</u> | <u>\$ 43,521</u> | <u>\$ 94,845</u> |

See accompanying independent auditor's report.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except internal service, private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2005, disbursements in the instruction and other expenditures functions exceeded the amounts budgeted.

Other Supplementary Information

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2005

| | Special Revenue | | | |
|-----------------------------------|--------------------|---------------------|--|-------------------|
| | Management Levy | Student Activity | Physical Plant and Equipment Levy | Debt Service |
| Assets | | | | |
| Cash and pooled investments | \$ 67,230 | \$ 112,476 | \$ 188,416 | \$ 21,010 |
| Receivables: | | | | |
| Property tax: | | | | |
| Current year | 3,389 | - | 2,882 | 1,239 |
| Succeeding year | 243,475 | - | 189,355 | 99,213 |
| Accrued interest | - | - | - | - |
| Accounts | - | 18,282 | - | - |
| Due from other governments | - | - | - | - |
| Total assets | <u>\$ 314,094</u> | <u>\$ 130,758</u> | <u>\$ 380,653</u> | <u>\$ 121,462</u> |
| Liabilities and Fund Equity | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ - | \$ 21,939 | \$ 63,771 | \$ - |
| Deferred revenue: | | | | |
| Succeeding year property tax | 243,475 | - | 189,355 | 99,213 |
| Total liabilities | <u>243,475</u> | <u>21,939</u> | <u>253,126</u> | <u>99,213</u> |
| Fund equity: | | | | |
| Fund balances: | | | | |
| Reserved for: | | | | |
| Debt service | - | - | - | 22,249 |
| Unreserved: | | | | |
| Undesignated | 70,619 | 108,819 | 127,527 | - |
| Total fund equity | <u>70,619</u> | <u>108,819</u> | <u>127,527</u> | <u>22,249</u> |
| Total liabilities and fund equity | <u>\$ 314,094</u> | <u>\$ 130,758</u> | <u>\$ 380,653</u> | <u>\$ 121,462</u> |

See accompanying independent auditor's report.

| <u>Capital Projects</u> | <u>Total</u> |
|-----------------------------|---------------------|
| \$ 385,488 | \$ 774,620 |
| - | 7,510 |
| - | 532,043 |
| 2,388 | 2,388 |
| - | 18,282 |
| 103,109 | 103,109 |
| <u>\$ 490,985</u> | <u>\$ 1,437,952</u> |

| | |
|--------------|----------------|
| \$ 8,865 | \$ 94,575 |
| - | 532,043 |
| <u>8,865</u> | <u>626,618</u> |

| | |
|-------------------|---------------------|
| - | 22,249 |
| 482,120 | 789,085 |
| <u>482,120</u> | <u>811,334</u> |
| <u>\$ 490,985</u> | <u>\$ 1,437,952</u> |

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2005

| | Special Revenue | | | |
|--|--------------------|---------------------|--|------------------|
| | Management Levy | Student Activity | Physical Plant and Equipment Levy | Debt Service |
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | \$ 247,168 | \$ - | \$ 204,419 | \$ 87,917 |
| Other | 1,410 | 721,023 | 6,209 | 484 |
| State sources | 242 | - | 193 | 83 |
| Total revenues | <u>248,820</u> | <u>721,023</u> | <u>210,821</u> | <u>88,484</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular instruction | 27,935 | - | 56,860 | - |
| Other instruction | - | 749,035 | - | - |
| Support services: | | | | |
| Instructional staff services | - | - | 29,888 | - |
| Administration services | 643 | - | - | - |
| Operation and maintenance of plant services | 81,140 | - | - | - |
| Transportation services | 17,537 | - | 28,740 | - |
| Other expenditures: | | | | |
| Facilities acquisition | - | - | 112,083 | - |
| Long term debt: | | | | |
| Principal | - | - | - | 100,000 |
| Interest and fiscal charges | - | - | - | 12,787 |
| Total expenditures | <u>127,255</u> | <u>749,035</u> | <u>227,571</u> | <u>112,787</u> |
| Excess (deficiency) of revenues over (under) expenditures | 121,565 | (28,012) | (16,750) | (24,303) |
| Fund balances beginning of year | <u>(50,946)</u> | <u>136,831</u> | <u>144,277</u> | <u>46,552</u> |
| Fund balances end of year | <u>\$ 70,619</u> | <u>\$ 108,819</u> | <u>\$ 127,527</u> | <u>\$ 22,249</u> |

See accompanying independent auditor's report.

| <u>Capital Projects</u> | | <u>Total</u> | |
|-----------------------------|----------------|--------------|------------------|
| \$ | 697,675 | \$ | 1,237,179 |
| | 6,697 | | 735,823 |
| | - | | 518 |
| | <u>704,372</u> | | <u>1,973,520</u> |
| | | | |
| | - | | 84,795 |
| | - | | 749,035 |
| | | | |
| | - | | 29,888 |
| | - | | 643 |
| | | | |
| | - | | 81,140 |
| | - | | 46,277 |
| | 592,858 | | 704,941 |
| | | | |
| | - | | 100,000 |
| | - | | 12,787 |
| | <u>592,858</u> | | <u>1,809,506</u> |
| | | | |
| | 111,514 | | 164,014 |
| | | | |
| | <u>370,606</u> | | <u>647,320</u> |
| \$ | <u>482,120</u> | \$ | <u>811,334</u> |

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2005

| Account | Balance Beginning of Year | Revenues | Expenditures | Balance End of Year |
|------------------------|---------------------------------|----------|--------------|---------------------------|
| Interest | \$ 941 | \$ 1,933 | \$ 2,834 | \$ 40 |
| High School: | | | | |
| AFS | 1,628 | 2,407 | 2,275 | 1,760 |
| Activity Tickets | 195 | 13,630 | 13,723 | 102 |
| Art Resale | 6,754 | 4,131 | 6,633 | 4,252 |
| Auto Restoration | (10,049) | - | 2,234 | (12,283) |
| A.V. Club | 1,406 | 859 | 409 | 1,856 |
| Band Resale | (1,576) | 42,780 | 43,531 | (2,327) |
| Band Trip | 52,524 | 306,038 | 347,710 | 10,852 |
| Buildings and Trades | 805 | 2,190 | 1,648 | 1,347 |
| Business/Marketing | 431 | 943 | 540 | 834 |
| Cheerleaders | 1,121 | 5,516 | 6,250 | 387 |
| Class of: | | | | |
| 2001 | 25 | - | 25 | - |
| 2004 | 490 | - | 490 | - |
| 2005 | 865 | 2,860 | 2,898 | 827 |
| 2006 | - | 489 | - | 489 |
| Coke | 1,005 | 1,665 | 889 | 1,781 |
| Color Guard | (1,581) | 118 | 215 | (1,678) |
| Concessions | (37) | 19,205 | 19,168 | - |
| Drama | 871 | 749 | 177 | 1,443 |
| Explore the World | 752 | - | - | 752 |
| Faculty Scholarship | 942 | 1,960 | 1,950 | 952 |
| French Club | 2,322 | 1,998 | 2,453 | 1,867 |
| French Trip | (365) | 365 | - | - |
| General Athletics | (1,454) | 156,789 | 151,183 | 4,152 |
| Hall of Fame | 109 | - | - | 109 |
| Home Economics Resale | 1,511 | 549 | 144 | 1,916 |
| Industrial Arts | (7,059) | 8,393 | 8,839 | (7,505) |
| Letter Club | 517 | 20,248 | 13,631 | 7,134 |
| Library | 1,163 | 958 | 377 | 1,744 |
| Math Resale | 2,745 | 7,234 | 4,555 | 5,424 |
| Model U.N. | 32 | - | - | 32 |
| Music Rental Fees | 1,142 | 571 | - | 1,713 |
| Musical | 140 | 4,223 | 2,966 | 1,397 |
| National Honor Society | 193 | 56 | 25 | 224 |
| Newspaper | 1,034 | - | - | 1,034 |
| P.E. Resale | 1,160 | - | - | 1,160 |
| Pictures | 857 | 448 | 216 | 1,089 |
| Prom | 742 | 3,966 | 3,795 | 913 |
| Rebound Club | 1,212 | - | - | 1,212 |

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2005

| Account | Balance Beginning of Year | Revenues | Expenditures | Balance End of Year |
|--------------------------|---------------------------------|----------|--------------|---------------------------|
| High School (continued): | | | | |
| Science Resale | \$ 215 | \$ 626 | \$ 413 | \$ 428 |
| Spanish Club | 95 | - | - | 95 |
| Speech | 1,296 | 3,966 | 2,893 | 2,369 |
| Stop and Shop | 974 | - | - | 974 |
| Student Council | 6,075 | 5,087 | 8,919 | 2,243 |
| Student Supplies | 221 | 1,716 | 1,336 | 601 |
| Vocal Music | 6,934 | 6,065 | 6,841 | 6,158 |
| Weight Equipment | 654 | 2,500 | - | 3,154 |
| Yearbook | (9,182) | 17,380 | 12,692 | (4,494) |
| Middle School: | | | | |
| Art Resale | 2,505 | 2,000 | 269 | 4,236 |
| Book Fare | 1,632 | 1,089 | 1,805 | 916 |
| Capital Projects | 7,583 | - | 7,583 | - |
| Concessions | 256 | 2,211 | 491 | 1,976 |
| Eclipse/TAG | 2,651 | 2,140 | 1,867 | 2,924 |
| General Athletics | 1,847 | 13,400 | 13,059 | 2,188 |
| Industrial Arts | 5,669 | 1,529 | 960 | 6,238 |
| Instrumental Music | (10,942) | 10,058 | 14,193 | (15,077) |
| Library | 876 | 4,317 | 5,005 | 188 |
| Magazines | 19,569 | 41,041 | 38,361 | 22,249 |
| P.E. Resale | 40 | - | 40 | - |
| Pictures | 2,420 | 403 | 2,823 | - |
| S.A.T. | 94 | - | 94 | - |
| Social Studies | 2,145 | 251 | 518 | 1,878 |
| Staff Flowers | 1,473 | 170 | 220 | 1,423 |
| Student Council | (4,722) | 4,722 | - | - |
| Student Supplies | 5,653 | 638 | - | 6,291 |
| FCS | 1 | 1,393 | 1,394 | - |
| Vocal Music | 12 | - | - | 12 |
| East Elementary: | | | | |
| E.L.L. | 4,939 | 4,125 | 3,304 | 5,760 |
| Instrumental Music | 39 | 582 | 257 | 364 |
| Library | 3,836 | 1,761 | 1,133 | 4,464 |
| Pictures | 3,091 | 3,290 | 4,977 | 1,404 |
| Playground | 1,020 | - | - | 1,020 |
| West Elementary: | | | | |
| Library | 2,453 | 1,840 | 2,068 | 2,225 |
| P.E. Resale | 383 | - | - | 383 |
| Pictures | 4,509 | 3,778 | 6,272 | 2,015 |
| Student Council | (5) | 1,354 | 932 | 417 |

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2005

| Account | Balance Beginning of Year | Revenues | Expenditures | Balance End of Year |
|----------------------|---------------------------------|------------|--------------|---------------------------|
| South Elementary: | | | | |
| E.L.L. | \$ 426 | \$ 947 | \$ 103 | \$ 1,270 |
| Library | 719 | 691 | 180 | 1,230 |
| Pictures | 1,979 | 2,121 | 1,747 | 2,353 |
| Independence P.T.A.s | 3,885 | 6,138 | 6,080 | 3,943 |
| Intrafund Transfers | - | (41,577) | (41,577) | - |
| Total | \$ 136,831 | \$ 721,023 | \$ 749,035 | \$ 108,819 |

See accompanying independent auditor's report.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 Year Ended June 30, 2005

| | Balance Beginning of Year | Additions | Deductions | Balance End of Year |
|---------------------|---------------------------------|-----------------|-----------------|---------------------------|
| Assets | | | | |
| Cash | \$ 1,102 | \$ 3,053 | \$ 1,304 | \$ 2,851 |
| Accounts receivable | 88 | (44) | - | 44 |
| Total assets | <u>\$ 1,190</u> | <u>\$ 3,009</u> | <u>\$ 1,304</u> | <u>\$ 2,895</u> |
| Liabilities | | | | |
| Other payables | <u>\$ 1,190</u> | <u>\$ 3,009</u> | <u>\$ 1,304</u> | <u>\$ 2,895</u> |

See accompanying independent auditor's report.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

| | Modified Accrual Basis Years Ended June 30, | | | |
|---|--|----------------------|----------------------|----------------------|
| | 2005 | 2004 | 2003 | 2002 |
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | \$ 4,665,107 | \$ 4,467,364 | \$ 4,000,592 | \$ 3,744,883 |
| Tuition | 606,646 | 640,397 | 749,227 | 921,262 |
| Other | 799,629 | 603,915 | 538,604 | 537,907 |
| State sources | 6,761,303 | 6,382,559 | 6,493,857 | 6,428,492 |
| Federal sources | 685,363 | 919,975 | 513,828 | 485,192 |
| Total revenues | <u>\$ 13,518,048</u> | <u>\$ 13,014,210</u> | <u>\$ 12,296,108</u> | <u>\$ 12,117,736</u> |
| Expenditures: | | | | |
| Instruction: | | | | |
| Regular instruction | \$ 5,304,161 | \$ 5,379,437 | \$ 5,157,535 | \$ 5,396,416 |
| Special instruction | 2,384,983 | 2,371,803 | 2,171,248 | 2,048,489 |
| Other instruction | 1,410,055 | 1,149,732 | 1,045,886 | 1,077,102 |
| Support services: | | | | |
| Student services | 339,021 | 357,768 | 335,202 | 314,852 |
| Instructional staff services | 408,158 | 330,864 | 291,618 | 271,245 |
| Administration services | 1,009,887 | 1,023,851 | 1,010,558 | 1,046,219 |
| Operation and maintenance of plant services | 987,515 | 986,309 | 996,777 | 818,692 |
| Transportation services | 396,293 | 372,190 | 401,680 | 279,530 |
| Non-instructional programs | - | 4,220 | 4,594 | 4,653 |
| Other expenditures: | | | | |
| Facilities acquisition | 704,941 | 360,022 | 230,843 | 101,319 |
| Long-term debt: | | | | |
| Principal | 100,000 | 95,000 | 105,000 | 105,000 |
| Interest and fiscal charges | 12,787 | 15,557 | 38,820 | 37,475 |
| AEA flowthrough | 443,869 | 450,291 | 480,925 | 482,597 |
| Total expenditures | <u>\$ 13,501,670</u> | <u>\$ 12,897,044</u> | <u>\$ 12,270,686</u> | <u>\$ 11,983,589</u> |

See accompanying independent auditor's report.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2005

| Grantor / Program | CFDA Number | Grant Number | Expenditures |
|--|----------------|-----------------|-------------------|
| Direct: | | | |
| U. S. Department of Education: | | | |
| Safe and Drug-Free Schools and Communities - National Programs | 84.184 | S184B020418 \$ | <u>140,574</u> |
| Indirect: | | | |
| U. S. Department of Agriculture: | | | |
| Iowa Department of Education: | | | |
| Food Donation (non-cash) | 10.550 | FY 05 | <u>39,216</u> |
| School Nutrition Cluster Programs: | | | |
| School Breakfast Program | 10.553 | FY 05 | 29,207 |
| National School Lunch Program | 10.555 | FY 05 | 182,526 |
| School Milk Program for Children | 10.556 | FY 05 | 545 |
| | | | <u>212,278</u> |
| U. S. Department of Education: | | | |
| Iowa Department of Education: | | | |
| Title 1 Grants to Local Educational Agencies | 84.010 | 3105G | 205,113 |
| Title 1 Grants to Local Educational Agencies | 84.010 | 3105D | 17,728 |
| | | | <u>222,841</u> |
| Grants for State Assessments and Related Activities | 84.369 | FY 05 | <u>8,832</u> |
| State Grants for Innovative Programs | 84.298 | FY 05 | <u>5,749</u> |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186 | FY 05 | <u>7,764</u> |
| Improving Teacher Quality State Grants | 84.367 | FY 05 | <u>71,611</u> |
| Area Education Agency 7: | | | |
| Special Education - Grants to States | 84.027 | FY 05 | <u>78,042</u> |
| Vocational Education - Basic Grants to States | 84.048 | FY 05 | <u>19,262</u> |
| Total | | | <u>\$ 806,169</u> |

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2005

Basis of Presentation –

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Independence Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Education of
Independence Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Independence Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 19, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Independence Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independence Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about Independence Community School District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Independence Community School District and other parties to whom Independence Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Independence Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Oskaloosa, Iowa
August 19, 2005

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

To the Board of Education of
Independence Community School District:

Compliance

We have audited the compliance of Independence Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Independence Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Independence Community School District's management. Our responsibility is to express an opinion on Independence Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Independence Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Independence Community School District's compliance with those requirements.

In our opinion, Independence Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Independence Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Independence Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Independence Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Independence Community School District and other parties to whom Independence Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Oskaloosa, Iowa
August 19, 2005

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.010 – Title I Grants to Local Educational Agencies
 - Clustered programs:
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.555 – National School Lunch Program
 - CFDA Number 10.556 – School Milk Program for Children
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Independence Community School District did not qualify a low-risk auditee.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

Part II: Findings Related to the General Purpose Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

- II-A-05 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts preparation and the posting of cash receipts to the cash receipts journal were done by the same person. Also, the recording, preparing and signing of checks were all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will continue to review our procedures and implement additional controls where possible.

Conclusion – Response accepted.

- II-B-05 Disbursements – Out of forty disbursements tested, one was not supported by an invoice or receipt at the time of payment. This disbursement was a Special Revenue, Student Activity Fund bill for a magazine fundraiser.

Recommendation – All disbursements should be adequately supported by an invoice, receipt or other written documentation prior to the payment being made.

Response – We will make sure that all future disbursements are properly supported.

Conclusion – Response accepted.

- II-C-05 Netting of Revenues and Expenditures – We noted one receipt that was posted against an expenditure account.

Recommendation – This practice understates both revenues and expenditures. The District should avoid netting a revenue against an expenditure except in limited circumstances such as a sales tax refund or similar revenue.

Response – This was an isolated situation involving an insurance claim. We will properly record all revenues in the future.

Conclusion – Response accepted.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

No matters were reported.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-05 Official Depositories – Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.
- IV-B-05 Certified Budget – Disbursements for the year ended June 30, 2005, exceeded the amounts budgeted in the instruction and other expenditures functions.
- Recommendation – The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.
- Response – We will amend our budget before disbursements exceed the budget.
- Conclusion – Response accepted.
- IV-C-05 Questionable Expenditures – No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- IV-D-05 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-E-05 Business Transactions – We noted no business transactions between the District and District officials or employees.
- IV-F-05 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-G-05 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.
- IV-H-05 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.
- IV-I-05 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District’s investment policy were noted.
- IV-J-05 Certified Annual Report – The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

Part IV: Other Findings Related to Statutory Reporting (continued):

- IV-K-05 Financial Condition – We noted that the Special Revenue, Student Activity Fund had several deficit balances within the group of single activity accounts.

Recommendation – The District needs to monitor the Student Activity accounts more closely and investigate alternatives to eliminate the deficit balances.

Response – We are working on the Student Activity Fund deficit accounts.

Conclusion – Response accepted.

- IV-L-05 Student Activity Fund – We noted transactions being recorded through the Special Revenue, Student Activity Fund such as resale accounts and scholarships that would more appropriately be accounted for in the General Fund or Trust and Agency Funds.

Recommendation – The Student Activity Fund is to be used to account for money received from student related activities such as admissions, activity fees, student dues, fundraising events, or other student related cocurricular activities as stated in the administrative rules of the Department of Education.

Response – We will review these accounts and transfer items to more appropriate funds.

Conclusion – Response accepted.

This document was created with Win2PDF available at <http://www.win2pdf.com>.
The unregistered version of Win2PDF is for evaluation or non-commercial use only.